

BEFORE THE HOUSE BUSINESS & LABOR COMMITTEE  
April 19, 2007  
COMMENTS OF THE PUBLIC SERVICE COMMISSION  
IN SUPPORT OF SENATE BILL 189

SB 189 corrects an obstacle to the PSC's mission of establishing just and reasonable rates for public utilities. A just and reasonable rate allows a utility to cover its expenses and to earn a fair return, or profit. When utilities think they are not earning enough they can ask the PSC for a rate increase. They can ask for a rate increase as often as they think necessary. However, when utilities are earning more than a fair profit, as determined by the PSC in their last rate case, there is no legal requirement to file for a rate review. The result, not surprisingly, is that utilities in Montana can go for years without a rate review, during which time they may be charging rates far in excess of what is necessary to earn a reasonable profit. This ought to be a serious public interest concern for all Montanans.

The PSC supports this Bill because it improves the regulatory process. This Bill is not aimed at or driven by any single utility. This is not a "get Qwest" bill. Qwest is however the current example that exemplifies the need for this statutory change. Qwest has not had a general rate review for almost 20 years. In that period of time, the telecommunications industry has benefited from numerous technological advances. Those technological advances almost certainly have lowered Qwest's operating costs. Yet because there has not been a review of Qwest's rates for so many years, none of those operating efficiencies have been passed along as lower rates to Qwest's Montana customers. Annual financial reports filed by Qwest with the Montana Commission indicate that Qwest has been earning profits over the past several years that are significantly in excess of what would be considered reasonable by any regulatory standard.

This Committee will hear arguments against SB 189. It is true for instance that under current law(MCA 69-3-324) it is theoretically possible to force a rate review, but as a practical matter it does not happen. To state the obvious, the PSC does not keep the books for the companies it regulates. We simply do not have the available staff or the financial resources to gather the information needed to initiate a rate case under 69-3-324.

Also, rest assured that the Montana PSC is not interested in calling for rate cases to be filed, unless there is ample financial evidence that rates may not be reasonable.

Finally, rates that are stable and lower than average are a good thing. But rates are utility specific; and the question is not whether rates have been stable, but whether rates are allowing the utility to earn a reasonable profit. Rates that are stable and below average can also result in a utility earning an unreasonably high profit.

This Bill would provide the PSC with an important tool to assure just and reasonable rates. It should be supported by every customer of regulated utility service, as well as by all those who think utilities should earn a fair, but not an unfair, profit. You can be sure that when utilities conclude that they are not earning a fair and reasonable profit, they are quick to ask the PSC for a revenue increase. This Bill will provide some necessary balance. With the changes offered in SB 189, the PSC would have the ability to assure that the interest of consumers are also protected by calling for a review of rates when there is ample evidence that a utility is earning excessive profits.

The PSC urges your support of this Bill.

## Montana Intrastate Regulated Earned Rate of Return

(Thousands of Dollars)

Year: 2005

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service	611,151	570,168	7.19%
3	2002 Prop. Held for Future Telecommunications Use	0	0	
4	3100-3200 (Less) Accumulated Depreciation	410,333	361,118	13.63%
5	<b>NET Plant in Service</b>	<b>200,818</b>	<b>209,050</b>	<b>-3.94%</b>
6				
7	<u>Additions</u>			
8	1220 Materials & Supplies	393	425	-7.37%
9	1280 Prepayments	0	0	
10	Other Additions	0	0	
11	<b>TOTAL Additions</b>	<b>393</b>	<b>425</b>	<b>-7.37%</b>
12				
13	<u>Deductions</u>			
14	4100 Current Deferred Operating Income Taxes	(566)	(458)	-23.69%
15	4320 Unamortized Operating Investment Tax Credits	1,155	1,510	-23.52%
16	4340 Noncurrent Deferred Operating Income Taxes	34,109	32,851	3.83%
17	Customer Advances for Construction			
18	Other Deductions	0	0	
19	<b>TOTAL Deductions</b>	<b>34,697</b>	<b>33,903</b>	<b>2.34%</b>
20	<b>TOTAL Rate Base</b>	<b>166,514</b>	<b>175,572</b>	<b>-5.16%</b>
21				
22	<b>Net Earnings</b>	<b>36,007</b>	<b>37,441</b>	<b>-3.83%</b>
23				
24	<b>Rate of Return on Average Rate Base</b>	<b>21.624%</b>	<b>21.325%</b>	<b>1.40%</b>
25				
26	<b>Rate of Return on Average Equity</b>	<b>66.620%</b>	<b>47.064%</b>	<b>41.55%</b>
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
30	Earnings from Docket 93.7.25 - () reduces earnings			
31				
32	Advertising	95	95	0.00%
33	Contributions/Legal Advocacy	8	8	0.00%
34	Miscellaneous Dues	18	18	0.00%
35	Uncollectibles Accrual To Write Off	(131)	(131)	0.00%
36	Interest on Customer Deposits	(37)	(37)	0.00%
37	<b>Total Net Income Adjustments</b>	<b>(47)</b>	<b>(47)</b>	<b>0.00%</b>
38	<b>Rate Base Adjustments</b>			
39	Customer Deposits	453	453	0.00%
40	Land Development Agreements	283	283	0.00%
41	<b>Total Rate Base Adjustments</b>	<b>736</b>	<b>736</b>	<b>0.00%</b>
42				
43	<b>Adjusted Rate of Return on Average Rate Base</b>	<b>21.692%</b>	<b>21.388%</b>	<b>1.42%</b>
44				
45	<b>Adjusted Rate of Return on Average Equity</b>	<b>66.917%</b>	<b>47.247%</b>	<b>41.63%</b>